

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57733

#### **MOUNT VERNON SCHOOL DISTRICT NO. 320**

Skagit County, Washington

September 1, 1994 Through August 31, 1995

Issue Date: September 20, 1996

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**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Mount Vernon School District No. 320 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Schedule Of Findings**

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1. The District Should Improve Internal Controls Over Cash Receipting

Our audit revealed the following weaknesses in the district's receipting system:

- a. Reconciliations are not performed of meals served to revenues received for school food service at the middle school, high school or the one elementary school tested this year. Therefore, no assurance can be provided all revenues due to the district were received.
- b. Cash, which had not been counted or reconciled, was transported in a locked bank bag from the middle school and high school to the district office. The individual transporting the cash had access to a key, thus making the controls ineffective. Without this control, accountability could not be determined in the event of a loss of funds.
- c. One individual receipts cash, records sales, prepares deposits, transmits deposits to the bank, and reconciles the bank account for the middle school and high school food service program. Additionally, at the elementary school food service program tested, one individual receipts cash, records sales, prepares deposits, and transmits deposits to the bank. The lack of segregation of duties provides no assurance all revenues due to the district have been received.
- d. At the elementary school tested, access to cash was not limited. In the event of a loss of funds, accountability could not be determined.
- e. Mode of payment was not indicated on receipts both at the district office and at the decentralized locations. Without this control, it cannot be determined if deposits are made intact, and therefore, no assurance can be provided all revenues due to the district have been received.
- f. Unofficial "Rediform" receipts which are easily duplicated, were used at the elementary school tested. Without official pre-numbered receipts, no assurance can be provided that all revenues due to the district have been received.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public

income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

The *Accounting Manual for School Districts in the State of Washington*, Chapter III, Section G-1, page 1, states in part:

An internal control system consists of the plan . . . to ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Page 3 of the *Accounting Manual for School Districts in the State of Washington*, Chapter III, Section G-1, goes on to state in part:

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

Cash receipt weaknesses occurred because district officials did not understand the significance of these controls.

Poor internal controls result in decreased accountability over cash receipts and an increased risk that errors and irregularities may occur and not be detected in a timely manner, if at all.

We recommend the district improve its receipting system by implementing the following internal controls:

- a. Reconciliations should be performed daily between meals served and revenues received at all locations.
- b. Cash should be transported in a safe, secure manner from the decentralized locations to the district office or authorized bank to maintain accountability over cash.
- c. Duties should be properly segregated at all locations between key functions and responsibilities for receiving, recording, reconciling, and depositing cash receipts.
- d. Access to cash should be limited to the individual responsible so accountability can be clearly determined. Further, cash should be adequately secured at all times.
- e. Indicate mode of payment on receipts at all locations.
- f. Use only official, prenumbered, preprinted receipts at all locations.

#### Auditee's Response

*We agree with the auditor's prescription, and continually work to implement internal controls over cash throughout all District operations. Methods and communication vehicles include annual distribution of a generalized finance procedures manual to all schools and new employees, and promulgating a specific cash control procedures memorandum addressed to all individuals in the District whose position involves handling cash, and to the supervisors of same. It appears that the sites examined had some weaknesses as noted, in all likelihood at least partly attributable to employee turnover. However, we believe it would be erroneous to presume the weaknesses are district-wide or pervasive in all areas.*

*Food service operations in the District have been rapidly and inexorably moving in the direction of non-cash transactions. At the elementary schools, an average of 70% of lunches served and 96% of*



breakfasts served are federally subsidized. Given this shift, the bulk of the District's efforts, with limited manpower and resources, have been focused on maintaining compliance with the complexities of federal USDA regulations. However, this does not minimize or negate cash control issues which we believe are certainly improvable.

- a. **Reconciliations should be performed daily between meals served and revenues received at all locations.**

Under current operations, typically, a reconciliation is made between cash sales at a school, class counts made by individual teachers (both recorded on rosters), and tray counts conducted by kitchen staff to verify participation. The same data is tallied for a monthly reconciliation prepared and submitted electronically to OSPI. Finally, the District prepares a monthly Profit & Loss statement to provide management a financial view of the entire enterprise, including labor costs and inventory. We believe any significant deviations would be noted as a result of these procedures. However, in recognition of the need for a better, more automated process to track all of the accountability interests in food service operations (cash as well as free and reduced-price), the District installed an accounting cash register at one elementary school last year which is working very well. Similar registers have recently been purchased for installation at the other schools, and more staff time has been allocated district-wide to facilitate cash accountability and controls.

- b. **Cash should be transported in a safe, secure manner from the decentralized locations to the district office or authorized bank to maintain accountability over cash.**

We concur with the prescribed statement, and believe this is generally accomplished district-wide. In years past, this function was performed by the building principal or designee. Contemporary demands upon these individuals have made time for this an unaffordable luxury. The District is examining the possibility of assigning this responsibility to a recently hired in-district mail courier, who would be appropriately bonded.

- c. **Proper segregation of duties between key functions and responsibility of receiving, recording, reconciling, and depositing cash receipts should be implemented at all locations.**

The District concurs with this prescription, and is working to resolve this concern within the resources available to increase the segregation of duties in those locations where maximum segregation may not presently exist. At the elementary school tested, which is representative, the segregation of duties presently involves five individuals on a daily basis. The District's overall objective will be to ensure that there is an adequate check and balance among the individuals involved, and that no one individual has disproportionate access and control.

- d. **Access to cash should be limited to the individual responsible so accountability can be clearly determined. In addition, cash should be adequately secured at all times.**

The District concurs with this prescription, which did emanate from a weakness noted at one location, but not others. However, we have reviewed our procedures district-wide and modified them as follows at the location in question: When not actually being used for sales, the cash box is locked and kept in a secure space. Access to the secure space and the cash box, each by separate keys, is limited to two individuals (both school office staff). No other persons have access to these keys.

- e. **Indicate mode of payment on receipts at all locations.**

We concur with this concept and believe it is generally the practice throughout the District. Our review of procedures reveals that the mode of payment is indicated on deposit receipts by all schools and the District office, that is, all checks received are listed separately from currency and coin (cash). Looking ahead, we believe we can improve our record of mode of payment at the individual serving stations at

*the high school following the installation of cash registers addressed in (a) above. Similarly, we believe we can improve our procedures at the other schools by recording mode of payment on the student rosters, provided doing so does not conflict with federal overt-identification regulations. Finally, we believe we can improve indication of mode of payment by listing checks vs. cash on District office receipts, which has not been a consistent procedure.*

**f. *Use only official pre-numbered, pre-printed receipts at all locations.***

*Except for the elementary school tested, all schools were using pre-printed and pre-numbered receipts. At the time of the audit, this school had exhausted its supply, and resorted to unnumbered receipts as better than none at all. At the school tested, the appropriate pre-numbered receipts were immediately ordered and received and are currently in use.*

**Auditor's Concluding Remarks**

The district appears to understand the concerns noted, however, we would like to clarify two points:

- a. Reconciliation procedures should include investigating and correcting the causes for differences between the cash received and meals served. We noted differences which had not been reconciled.
- c. Although we would agree five individuals were involved in the process, their duties were not sufficiently segregated to ensure the integrity of all transactions. Sufficient segregation can be established with the resources currently available.

**2. The District Should Comply With Advance Travel Requirements**

Our review of the Advance Travel Fund revealed the following irregularities:

- a. No records were maintained to allow the district or auditors to determine if unused advance travel funds were reimbursed within the 10-day period following travel as required or had been reimbursed at all.
- b. Reimbursements from the General Fund were requested based only upon Advance Travel Request forms. In most cases, original documentation of actual expenditures supporting the claim was not attached or available.
- c. The fund was \$907 in excess of the authorized balance. While the fund had been reconciled to the bank balance, no attempt had been made to reconcile it to the amount authorized by resolution.
- d. Advance travel funds were used as payment for airline tickets, conference registrations, and reimbursements for travel charges already incurred.

RCW 42.24.150 states in part:

On or before the tenth day following the close of the authorized travel period for which expenses have been advanced to any officer or employee, he shall submit to the appropriate official a fully itemized travel expense voucher, for all reimbursable items legally expended, accompanied by the unexpended portion of such advance, if any.

In addition RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show . . . all receipt, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

*The Accounting Manual for School Districts in the State of Washington*, Chapter III, Section G-4, page 4, in reference to revolving funds, states:

The accounts are administered for the following requirements:

- \* The board of directors of the school district must authorize the initial amount, any changes in the account, and the maximum amount allowable by resolution.
- \* Disbursements from imprest bank accounts and petty cash funds (accounts) shall be restricted to payments evidenced by appropriate documentation, including but not limited to invoices from vendors, receipts for goods, etc.
- \* All imprest bank accounts . . . must be reconciled to the authorized maximum amount at least monthly.

*The Accounting Manual for School Districts in the State of Washington*, Chapter III, Section G-4, page 3, paragraph 3 further states:

Advance travel imprest bank accounts: Unique accounts . . . must be used solely for advancing anticipated personal travel reimbursements to employees or district officials. It is not to be used for the purpose of personal loans, payment of airline tickets, conference registrations, or reimbursements for travel charges already incurred . . . .

By not reconciling the Advance Travel Fund properly and not maintaining required records, the district was unable to detect when irregularities had occurred. By not maintaining records, the district was unable to determine if all unused advance travel funds had been returned or if advance travel funds were used for legal purposes.

A lack of understanding of the requirements for using an advance travel fund by staff and the lack of monitoring by supervisory personnel appear to have led to the irregularities noted.

We recommend the district comply with Advance Travel Fund requirements as follows:

- a. Maintain adequate records to allow the district and others to determine if unused advance travel funds have been reimbursed within the 10-day period required by law.
- b. Base reimbursements to the Advance Travel Fund upon receipts or other supporting documentation to support the validity of the transaction.
- c. Reconcile the Advance Travel checking account to both the bank statement and the authorized balance.
- d. Use the Advance Travel account only for allowable purposes.

*Auditee's Response*

*The District has operated an advance travel fund error-free for decades. However, the individual primarily responsible for managing the fund on a day-to-day basis recently retired. Regrettably, the successor individual did not fully understand the specific job requirements and responsibilities, despite having had some previous experience. Because of this and other performance weaknesses, this individual is no longer employed by the District.*

*We attribute this matter to human failing. Subsequently, the advance travel fund has been thoroughly reviewed, balanced, and reconciled. In the future, the fund will be used only in accordance with prescribed regulations. Each reimbursement will be backed by appropriate supporting documentation. The fund will be reconciled both with the bank statement and approved balance and monitored by internal audits.*

3. The District Should Improve Controls Over Associated Student Body (ASB) Activities

During our prior year's audit of Mount Vernon High School's ASB records, we noted internal control weaknesses over ASB fundraising activities. Our subsequent review noted the high school had established an ASB policies and procedures manual which addresses fund raising activities. However, we still noted areas which warrant further review as evidenced by the following:

- a. A reconciliation of quantity sold to money deposited was not prepared for the homecoming T-shirt sale. Based upon revenue recorded in the financial statements, the fund raiser grossed \$3,688 on sales of 370 T-shirts. As no inventory records were available for review, the examiner performed a physical inventory which revealed 297 T-shirts remained, leaving 83 T-shirts unaccounted for. High school staff represented some T-shirts were authorized for distribution by the student senate. However, satisfactory documentation to support their statement could not be provided.
- b. A reconciliation of parking permits sold to money deposited was not prepared. Per records maintained for parking lot monitoring, a total of 284 permits were issued at \$30 each for expected revenue of \$8,520. Unauthorized discounts reduced this amount by \$270. The \$7,710 in actual revenue collected leaves \$540 of anticipated revenue unaccounted for.
- c. A reconciliation of ASB card validations was not prepared. Each student receives an ASB identification card, but must purchase a validation sticker to gain reduced rate entry to student events. Even though the validation stickers are numbered, no attempt was made by the district to reconcile total number issued to revenues collected.

WAC 392-138-045 states in part:

Associated student body moneys shall be accounted for as follows:

- (1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the Accounting Manual for Public Schools in the State of Washington . . . .

The *Accounting Manual For School Districts in the State of Washington*, dated September 1993, Chapter 9, Section ASB, page 5, A Suggested System Of Accounting For The ASB Fund At The School Level, ACCOUNTING ORGANIZATION AND METHODS, paragraph 3, provides in part:

The principles embodied in this system are those necessary to satisfy minimum requirements for adequate accounting and control of associated

student body moneys. Any district, whatever the accounting system used, must base that system on both the required and the generally accepted school business procedures, some of which are:

Official prenumbered documents must be used to adequately safeguard and control the financial transactions of the associated student body. All tickets . . . must be prenumbered and accurately controlled to ensure the integrity of the accounting system.

All money upon receipt must be deposited intact to the district depository bank and then to the county treasurer for credit to the Associated Student Body Fund of the district . . . .

Due to the control weaknesses listed above, there is insufficient documentation to determine if losses have occurred. Loss of revenues would result in the student body's not receiving the full benefit of its fundraising efforts. There is also an increased risk of other errors and irregularities occurring without being detected in a timely manner if at all.

The control weaknesses exist because school personnel did not monitor fundraisers to determine if controls were being implemented or were effective.

We recommend the district improve controls over ASB activities at Mount Vernon High School by:

- a. Preparing timely inventory records.
- b. Reconciling the items sold to receipts and money deposited.
- c. Requiring adequate supporting documentation be kept on file.
- d. Ensuring personnel are adequately trained in ASB requirements.
- e. Appropriately authorizing all discounts on goods or services sold.
- f. Monitoring fundraisers to determine if controls are being implemented and are effective.

#### Auditee's Response

*The ASB Fund encompasses an extremely varied and complex assortment of student-run activities. By intent and design, this array of activities is operated and managed under student authority and direction as a component of broader educational objectives. In other words, the purpose of the ASB Fund is to provide a real-world training opportunity for students involved in the management and day-to-day operation of these activities. An inherent risk of nearly every training environment is mistakes. In an effort to minimize mistakes, these student-run organizations and activities are provided guidance and direction by adult advisors, typically school faculty. Both the ASB advisor and the student activities advisor are relatively new to these positions and to an extent are themselves in a learning mode. As the statutes provide, the school district board of directors is ultimately responsible fiscally and legally for all ASB activities. The school board accepts this responsibility, and will continue to do its best through its delegated advisors to minimize errors while continuing its primary responsibility to educate and train students.*

*The accountability and reconciliation issues noted are not disputed, or are they typical of the way the ASB conducts business. ASB activities involve many student-run fundraising events. Most fundraising activities do not present a problem, and do not reveal similar mistakes. With regard to noted areas of*

*weakness, we respond that they occurred as a result of modest human failings on the part of individuals whose well-intentioned actions were in response to the needs of students. However, the auditor's specific recommendations have been reviewed with ASB management staff for further dissemination and implementation. The procedural, inventory and reconciliation weaknesses can and will be overcome.*

*As the auditor's report has noted, an ASB policies and procedures manual which addresses fundraising activities was developed in response to prior weaknesses in this area. In addition, a variety of other measures has been taken in an effort to improve the management, over-sight and accountability of the ASB student-training role. Included in them are:*

- development, production and distribution of an ASB handbook for advisors based on the WASBO ASB Procedures Manual*
- staff development and training for all ASB advisors*
- update and rewrite of the ASB constitution by the student senate*
- mandatory leadership class for all school and class student officers*
- improved fund-raising procedures (with considerable assistance from audit staff which was very much appreciated) to include use of a pre-fundraising request form, maintaining a master calendar of fundraising events, using pre-numbered tickets for all admissions events (where ticket sales are involved), provision of reconciliation/inventory/other forms as part of the advisor's handbook, and strict compliance/enforcement that proper signatures appear on all ASB purchase orders*
- separated scholarship fundraising activities from any connection with ASB by establishing external sponsorship*
- resolved past history of weakness regarding soft-drink vending inventory and accountability*

*In summary, we believe these measures and others not identified have significantly improved the ASB operation. This view is further supported by a healthy and growing ASB fund balance, and increasing student involvement in ASB-related activities. Subsequent attention to remedy the remaining concerns noted will assure an even better ASB operation.*

#### Auditor's Concluding Remarks

We acknowledge ASB activities are inherently risky. As such, the need for supervision, accountability, training, and accurate reconciliation procedures is heightened.

We would like to thank the district for its responses. Overall, the issues delineated in our report appear to have been addressed. We will review these areas in our subsequent audit. We would like to thank the management and staff for their assistance and cooperation throughout the audit.

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Financial Statements**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the accompanying general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mount Vernon School District No. 320 as of August 31, 1995, and the results of operations for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 1996, on our consideration of the district's internal control structure and a report dated February 5, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Mount Vernon School District No. 320 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

February 5, 1996



**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- level of effort
- reporting
- special tests and provisions related to carryover of funds, private schools, and period of availability of funds as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- and claims for reimbursements

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Mount Vernon School District No. 320 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1995.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended August 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Mount Vernon School District No. 320 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996

**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Directors  
Mount Vernon School District No. 320  
Mount Vernon, Washington

We have audited the general-purpose financial statements of Mount Vernon School District No. 320, Skagit County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated February 5, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated February 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated February 5, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Accounts payable
  - Purchasing and receiving
  - Payroll
  - General ledger
- **General Requirements**
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Level of effort
  - Reporting
  - Special requirements
- **Claims For Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Receivables
  - Inventory control
  - Property, plant, and equipment
- **General Requirements**
  - Davis-Bacon Act
  - Relocation assistance and real property acquisition
  - Subrecipient monitoring
- **Specific Requirements**
  - Matching and earmarking

- **Claims For Advances**
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended August 31, 1995, the district expended 51 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

February 5, 1996



**MOUNT VERNON SCHOOL DISTRICT No. 320**  
**Skagit County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Status Of Prior Findings**

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The findings contained in the prior audit report were resolved as follows:

Audit covering fiscal year 1994

1. The District Should Retain Applications For Free And Reduced Meals

*Resolution: The district has established new procedures to ensure all necessary records are properly retained. No exceptions were noted during our review of the National School Lunch Program.*

Audit covering fiscal year 1993

2. The District Should Improve Controls Over Associated Student Body (ASB) Activities

*Resolution: The district had established a new policy and procedure manual for ASB activities but our review indicated these procedures were neither followed nor monitored by district officials. Finding repeated. See Finding 4.*